



**DEFENSE LOGISTICS AGENCY**  
**DEFENSE CONTRACT MANAGEMENT COMMAND**  
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IN REPLY  
REFER TO

AQOE

DEC 18 1995

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT  
DISTRICTS**

**SUBJECT: DCMC Memorandum No. 96-90, Allowable Application of Full General and  
Administrative Expenses (G&A) to Settlement Expenses of Termination for  
Convenience. (INFORMATION)**

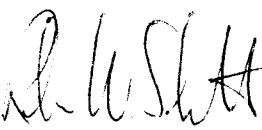
This is an INFORMATION memorandum. It expires upon incorporation in the Terminations Guidebook/Handbook, a lessons learned/best practices database, training materials, or other vehicles. Target Audience: Termination Contracting Officers, Contract Administrators, and Price Analysts.

Headquarters Defense Contract Audit Agency (DCAA) policy guidance letter 95-PAD-102 (R), dated July 7, 1995, supports the application of full G&A to settlement expenses. DCAA recently revisited the issue and concluded that "a reasonable interpretation of the cost principle (FAR 31.205-42) is that termination settlement expenses should be burdened in the same way a contractor burdens the same type of costs for ongoing contracts." This finding is supported so long as the contractor is consistent, and so long as the application does not result in double charging.

Thus, if the functions that make up the contractor's termination settlement expenses are normally charged direct, and are included in the G&A base; it would be appropriate to allocate G&A to the termination settlement expenses. In contrast, when the functions that make up termination settlement expenses are normally charged to G&A, these functions are not part of the G&A base. Therefore, it would be inappropriate to allocate G&A to such termination settlement expenses.

Although the G&A application may be allowable under certain circumstances, the contracting officer is reminded to always make the determination that a final settlement is fair and reasonable, i.e., an allowable, allocable cost, does not necessarily mean the final settlement is reasonable in accordance with FAR 31.201-3.

Please direct any questions you may have to Mr. Kevin R. Koch, Property Management, Contract Closeout, and Terminations Team (703) 767-6398 or DSN 427-6398.

  
JILL E. PETTIBONE  
Executive Director  
Contract Management Policy

